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INTRODUCTION—CONCEPTION OF THE ECOLOGY OF INTERNATIONAL COMPETITION

Japan and America in the Global Economy

by

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はじめに

現在，ボーダーレス・エコノミーのもと，国際間資金移動増大で各国国民経済は密接な相互影響と相互依存の糸で結ばれている．景気安定も一国単独での確保は不可能であり，金融財政政策面での各国の相互協力が不可欠である．

この意味で，日米の貿易及び構造摩擦についても国民経済フローと企業間競争戦略の両面で国際相互依存の視点での見直しを強く望みたいところである．

この視点につき筆者は，アメリカ・カリフォルニアのペパーダイン大学のドナルド・R・サイム教授(注)と意見交換を続けており，現在，学会での共同発表と共著出版の計画に取り組んでいるところである．

本稿は，この線での筆者の研究の初歩概念を，上記計画の第一段階作業として英文で整理したいわゆる「研究資料」であり，①日本の成功とその課題　②アメリカの課題と可能性　③長期経営戦略の三つについての大局的均衡生態分析を今後具体的に展開する基礎フレームでもある．

概念の一部や特に英文についての同教授の助言に対しここで謝意を表しておきたい．

The Ecology of International Competition Japan and America in the Global Economy

The traditional competitive model, whether domestic or international, is "dog eat dog." In today's world of increasingly limited resources, however, if nations are to survive, let alone prosper, they cannot afford to devour one another. The Arab oil embargo provided a textbook lesson in global interdependence. But most executives, particularly in America, have not yet even studied that text, much less taken it to heart.

Used to playing "hardball" and winning, American executives and managers recently have found themselves not only in a new game, but also in a new ball park. The playing field of business competition is no longer national, it has become international. Familiar with the old rules of the game, today's managers must develop new understanding and new skills if their companies are to succeed in the future. What is required is not simply a broader perspective, but a new model, different from the competitive one of the past. If managers continue to operate using the old model, the see-saw nature of world trade will continue, with all of its unfortunate distortions.

The competitive model when expanded to a global scale, should take into account all the intricate factors of competition, projects them on a map of the world, and factors in relationships between companies and their home countries along with infrastructural dispersions of national economies. The focus maintained in our past is quite narrow. It is "How do we succeed (that is, win) in the period under consideration?" Short-term imbalances among trading countries, as well as long-term effects, are largely ignored.

A new model is needed. If their companies are to survive and prevail, executives and managers must look at international competition from an ecological viewpoint, not a narrowly competitive one. They must see ralationships, dynamic trends, the nature of interactions, and the factors affecting the overall balance and health of the system.

The Ecology of International Competition will help executives acquire the new understanding required for effective thought and action in a global ecological context. An extensive discussion of Japanese and American business will illustrate the forces that operate in maintaining, or distorting, the ecological balance in the global economy.

The Ecology of International Competition will be a detailed analysis of the competitive situation facing Japan and the United States, set within the framework of an ecological system. It will discuss both the strengths of and the problems faced by Japanese and American corporations, and will indicate the factors within the total ecosystem affecting the two great economic powers. The work will also discuss management actions and business decisions that are effective within an ecological framework.

Competing Books

There are scores of books——some of them best sellers——treating Japanese and American business. The author has reviewed the majority of these and found none that portray the forces at work in the international market place by placing the competition between Japan and American in an ecological framework. There are books explaining the Japanese mind and Japanese business practices; books comparing Japanese and U. S. business methods; and books advising American executives on competing with other nations in general. There are none, however, that offer the unique insight to be provided by *The Ecology of International Competition.* Here are capsule reviews of a number of recent books in the field:

Japanese Style Management: An Insider's Analysis by Keitaro Hasegawa (Kodansha International, 1986, 162pp). Hasegawa, an established authority in Japan, attributes his country's success to a unique management style consisting of egalitarianism, dedication, and personal responsibility. The book is directed to those wanting to learn the secrets of Japanese productivity in order to compete with Japan; however, since its focus in entirely on Japan, there is no wider perspective, nor is there an ecological model.

Made in Japan: Akio Morita and Sony by Akio Morita with Edwin M. Ringold and Mitsuko Shimomura (E. P. Dutton, 1986, 309pp.). The authors explore the history and philosophy of Sony. They offer a fascinating portrait of one Japanese corporation, but do little to clarify the overall picture of Jǎpanese/American competition——or cooperation.

IBM vs. Japan: The Style of the Future by Robert Sobel (Stein and Day, 1986, 246pp.). The author catalogs the struggles of IBM in Japan. He believes these have strengthened IBM, both culturally and structurally, and he predicts the company's future success in Japan. Some light is shed on how to compete in Japan, but the larger competitive picture is neglected.

America vs. Japan, edited by Thomes K. McCraw (Boston: Harvard Business School Press, 1986, 463pp.). This book provides an historical perspective leading to conclusions about the nature of Japanese and American national trade policies and business strategies. It was written to explain both' Japanese and American relations between business and government. Although it illuminates some of the factors in the ecological model, the book is written from a policy——not a business——point of view.

Xerox: American Samurai by Gary Jacobson and John Hillkirk (Macmillan, 1986, 338pp.). The authors portray the tunaround at Xerox ——which is a good example of an American response to the Japanese. But they fail to offer much insight into the overall competitive situation between Japan and the United States.

The Reckoning by David Halberstam (William Morrow, 1986, 752pp.). provides insights both into the auto industry and into the economic environment of the U. S. and Japan. The book covers past events, socio-economic factors, and cultural/psychological characteristics. Although many of the factors that help to form the ecological framework are included, the focus of the book is quite narrow.

The Corporate Survivors by G. Harvey Stine (ANACOM, 1986, 230pp.). This book was written to illustrate long-term business trends; thus, the author stresses long-term, rather than short-term thinking. However, his orientation is more toward a competitive model than an ecological one.

The Vital Difference: Understanding the Powers of Sustained Corporate Success by Frederick G. Harmon (ANACOM, 1985, 294pp.). The author examines leading corporations to illustrate the concept of corporate personality. A valuable insight, but he does little to explain the larger picture of international competition.

The Zero-Sum Solution: Building a World-Class American Economy by Lester C. Thurow (Simon and Schuster, 1985, 414pp.). Thurow points out that the trade deficit is indicative of a distressing economic situation in the United States. His book is a resource for understanding the working of some of the competitive factors in the U. S. from an ecological point of view. Its focus, however, is limited to the United States and further limited in the range of factors considered.

The Japanese Mind : The Goliath Explained by Robert C. Christopher (Linden Press, a division of Simon & Schuster, 1983, 352pp.). Christopher explains how the Japanese think and feel. His book is less scholarly than Rischauer's *The Japanese,* but is more pertinent to the contemporary situation. This is a highly readable book, but only marginally helpful in understanding the overall picture of competition with Japan.

Miracle by design by Frank Gibney (Times Books, 1982, 239pp.). Gibney is a correspondent-turned-businessman with many years of experience in Japan. His purpose is to show how business operates in that country. The book is enjoyable, but its focus is too narrow for those seeking to understand the interdependence between Japan and American in ecological terms.

The Ecology of International Competition will be unique in providing a framework within which the international economic events of recent years can be better understood. It will also be unique in taking a comprehensive look at the factors that influence the trade balance between nations. And, it will be unique in using Japan and the United States to illustrate those factors at work. Although this work will overlap some of the above books at certain points, *The Ecology of International Competition* will offer a new context for understanding all of these works and for applying their suggestions to individual business situations.

As a new round of trade talks between the United States and Japan got underway in Tokyo in Septemcer, 1989, the American representatives advised their Japanese trading partners to stop saving and start spending. The Japanese delegation responded with the advice that Americans should start saving and stop spending.

At first blush, these two statements would seem to fly in the face of the ecnomic self-interest of the respective sides. After all, America is Japan's largest market. If Americans really were to stop spending, Japan would suffer. On the other hand, the American economy is increasingly dependent on the influx of foreign capital, particularly from Japan. If the Japanese really were to take to heart the American advice to spend, that critical pool of investment funds from Japan eventually might dry up. Of course, the picture is actually much more complex. U. S. trade representatives believe Japan should invest more public funds in its own infrastructure, while Japanese consumers should spend more. As domestic demand rises, imports could prosper, and the Japanese trade surplus could be reduced. Meanwhile, Japanese trade representatives believe that if Americans saved more, U. S. interest rates would fall, there would be less demand for imports, and the balance of trade would improve.

From America's frenetic pace of consumer spending in recent years, as well as the trade representatives' advice to Japan, it would seem that the once-popular wisdom of "A penny saved……" is no longer applicable in America. Indeed, as Wall Street Journal staff reporter Marcus W. Brauchli observed, "If you thought Americans considered thrift a virtue, think again. These days they say it's a Japanese vice."[1)]

Yet, at the same time that the U. S. trade delegates were busy preaching "spend, spend, spend" to Tokyo, on the home front, the administration seemed to concur with the Japanese assessment of America's situation. As Richard McCormack, U. S. Undersecretary of State told the *Wall Street Journal,* "When our Japanese colleagues stated that they thought our savings rate was insufficient, we were in total agreement with them."[2)]

The conventional model of business competition, whether domestic or international, basically consists of variations on the age-old theme of "dog eat dog." This competitive model is based on opposition, on dividing the marketplace into sides, then pitting them against one another. It has been a useful model for centuries, but it fails to allow for the kind of ambiguities, inconsistencies, and downright contradictions evident in today's marketplace in such situations as the U. S. - Japan trade negotiations.

The competitive model is, by nature, narrow in perspective. It treats the business arena like a giant chess board in which each move by one party is countered by an opposing thrust from the other. Such a model is useful within the short-term confines of a chess match, but it has become increeasingly less useful in today's global business environment.

The global perspective in business is new to most executives and managers, particularly in America. But, then, the global view of life on earth in general is relatively recent, perhaps no older than the concept of "Spaceship Earth"——which became apparent and important to the average American only when pioneering astronauts sent back from space color photographic images of our whole planet. It was at the time of those photographs, the 1960s, that movements to preserve the natural environment arose, deriving their new perspective of the way the world works from the young science of ecology.

That relatively new ecological perspective has become enormously important in understanding the world of nature and our physical environment. The old competitive model of "survival of the fittest," although still useful, is limited.

Similarly, in the new global business environment, managers need more than the old competitive model to guide them as they grapple with new problems. The model of competitive behavior must be expanded, to include not only a global perspective, but also a long-range viewpoint, which will help maintain the necessary balance for continued business success. Decision-makers, in both the public and private sectors, must gain a new understanding. If information continues to be accessed and integrated using the old model of competition, the see-saw nature of world trade will continue. With it, the number of business failures will grow, bringing economic hard-times for a great number of workers.

Those who must make decisions affecting business need an adequate model upon which to base their deliberations and determinations. Taking an example from the history of flight, humanity's attempts to escape earthbound limits were doomed until the principles of aerodynamics were understood. From the melting wax of the wings of Icarus to the pumping umbrellas of the would-be air-born at the turn of this century, no progress was made until human beings began to understand and cooperate with the physical laws qoverning flight. In a similar manner, the balance of international trade that is necessary for continued international economic success will only be maintained to the extent that those making the relevant decisions have an effective model of international competition.

To build that model, we will begin with a basic picture of the current situation, starting with a story. In late November, 1987, Richard D. Lamm, who had just completed his terms as Governor of Colorado, addressed the meeting of The American Assembly, Columbia University, on the subject of America in crisis, America "The Uncompetitive Society." He began with a tale of two high school graduations:

"I graduated from high school in 1953. I inherited from my parents the richest, most productive economy that history had ever seen. In every year of my grandfather's life and every year of my father's business career, American ran up trade surpluses. We had 44 percent of the world's economic product when I graduated from high school, and our economy was eight times larger than Japan's. When I graduated from high school, "made in Japan" meant junk. We made 80 percent of the world's automobiles, 90 percent of the world's color television sets, and our students' educational testing scores were the highest in the world. I took the generational baton from my parents, then I looked over my shoulder, and there was no one in sight.

My son Scott graduated from high school in June of 1986. He inherited a country where my generation has run up a $2.5 trillion deficit, where the interest on the federal debt amounts to $458 million a day, and where in 1987 we had to take an amount equivalent to the total individual income tax collections from everybody living west of the Mississippi River just to pay the interest on the national debt. The 1987 federal deficit was greater than the gross national product (GNP) of 158 of the world's 167 countries. ·

"In 1983 we ran up the largest trade deficit that history has ever seen, and in the following year we doubled it. Two weeks after my son graduated from high school we became a debtor nation with the lowest rate of productivity growth of any country in the industrialized world. Our productivity growth rate is 50 percent of the German rate, 33 percent of the French rate, and 25 percent of the Japanese rate. We have the lowest rate of savings of any country in the industrialized world, and our students are in the bottom third in all comparisons of international educational levels. We now make less than 30 percent of the world's automobiles and color television sets, and the percentage is falling fast. "Made in America" now often means poor quality. Hewlett-Packard recently found its poorest Japanese supplier was six times more reliable than its best American supplier."[3)]

This tale, sad but true, illuminates a critical difference among nations competing in the global economy. There is clearly a major difference today in the economic strategies of the United States, and other North Atlantic countries, and the East Asian countries —— Japan, South Korea, Taiwan, Hong Kong, and Singapore. The North Atlantic countries are distribution-oriented, with an emphasis on econmic security, income redistribution and short-term consumer benefits.[4)] The Asian nations, on the other hand, are development-oriented, with an emphasis on work, saving, and investment. This situation is not likely to change; therefore, it must be factored into any adequate competitive strategy.

Japan has led the way for the East Asian countries. An island with limited natural resources, Japan must export in order to survive. This need, coupled with their strong national unity and tendency to think long-term, caused the Japanese to go counter to the prevailing economic philosophy in the West.

According to Thomas K. McCraw, author of *America vs. Japan,* Japan views trade in 18th century mercantilist terms. Meanwhile, the U. S. uses 19th century power diplomacy as its model for trade.[5)]

Western nations have operated with the notion of comparative advantage in mind, as expounded by David Ricardo in 1917. The theory is quite simply stated: "……countries export commodities whose production requires relatively intensive use of productive resources found locally in relative abundance."[6)] According to this theory, Japan should have limited itself to products where cheap labor gave it the advantage.

The Japanese, however, operated under a different theory, sometimes called a "dynamic theory of comparative advantage." They focused on opportunity, as well as resources. They quickly moved upscale in their products and applied higher technology effectively. Other Asian nations have followed their lead. Starting with cheap labor, supported by government policy, and buttressed by the hard work of the people, these countries have quickly become a major threat to the economic stability of the Western nations. The latter countries, meanwhile, continue to rely on the counterbalance of a free market and focus their national strategies on the short term, rather than the long term. Because this situation is not likely to change anytime soon, American managers must learn to compete effectively within the existing environment.

To do so managers must expand their view of competition and develop a strategy that is holistic, coherent, flexible, and balanced. The implementation of such a strategy will depend upon a "critical mass" of decision-makers with a broad understanding of the global economy and international competition.

In recent years, a number of good, although not necessarily popular, books that expand the traditional competitive model to include a global perspective have been published. The authors of these books have gone beyond the practical issues of how to deal with foreign markets to in-depth discussion of how to manage farflung activities around the globe. As one writer puts it, "Firms are searching for ways to convert worldwide production, marketing, research and development, and financial presence into a competitive activity."[7)]

There is agreement among observers that the structural factors and market forces operating in global industries are basically the same as those in domestic environments.[8)] But, competitive thinking on a global scale includes many new areas to be considered, such as cost differences among countries; differing market circumstances; the roles of foreign governments; and differences in goals, resources, and the ability to monitor competitors.[9)]

But sitll more factors must be considered. Businesses must move beyond strategies and policies that favor short-term benefits at the expense of future prosperity. Conventional wisdom holds that American managers are pressured into managing for short-term results. This view, however, may be more of an excuse than an actuality.

Take, for example, the classic case of a Cleveland firm, Lincoln Electric Company——the largest manufacturer of welding machines and electrodes in the world. Lincoln exemplifies the best of strategic, long-term thought and action:

It is among the highest-paying factories, yet its products are characterized by top quality and low prices. At Lincoln, customers' interests come first, not those of stockholders. Indeed, the latter are the last to be considered. Financing for growth comes from within, the business, not only through retained earnings, but also through investment by the founders and stock purchases by employees. Lincoln does not borrow; its only debt is current payables. Its warranties are short or non-existent——because its products are so good, it has never handled a warranty claim. Since 1949, there have been no layoffs.[10)]

Such planning for the long-term, however, introduces even more uncertainty and complexity into cometitive thinking. This can be seen in the issue of quality control in the auto industry, which American companies ignored while the Japanese tackled the problem through the use of robots;

"In the early 1970s robots did not meet rate of return on investment criteria either in Japan or in the United States. But in Japan they were introduced anyway——to improve working conditions and quality. Painting and welding are disagreeable jobs on an auto assembly line, and few workers can consistently turn out hgih-quality work hour after hour, day after day. Quality control was considered more important than short-run rates of return on capital in Japan, while the opposite was true in the United States.

"In the long run, however, better quality control leads to market dominance. By being the first to use and build robots in large numbers the Japanese gained a tremendous economic advantage from being the first to go down the learning curve. Robots now pay for themselves in less than two and a half years. As a result the Japanese raised production from 2.5 million in the early 1970s to 11 million cars in the early 1980s while still employing the same 450,000 workers. By making quality control a secondary consideration to short-run financial performance, the American auto industry and much of the rest of American manufacturing lost their markets. American firms ended up showing huge losses (until they were given protection from Japanese competition) while the Japanese competition made fat profits.[11)]"

Adding global and long-range perspectives to the competitive model increases its complexity many times over. Somehow, all the factors, interdependencies, and relationships within the global economy must be included in competitive decisions. Clearly, the operating model cannot simply be competition, but something much larger. Because of the complexities involved, managers need a framework that will provide them with a more adequate basis for making operating decisions. The key question is: "What sort of framework will truly help us understand global competition?"

We must have a framework that helps the manager understand the specific facts of international competition. But facts, by themselves, are meaningless until they are brought together into a coherent whole. A collection of facts, like a collection of words in a dictionary, consists of a lot of interesting individual items with no plot. An assortment of facts at one's fingertips is desirable for playing trivia games, but such an assortment is not helpful in making sense out of news reports, articles, and statistics regarding international business.

But there is a framework into which all the fatts fit to form a comprehensive picture. Borrowing a concept from biology, it is possible to view international competition within an ecological framework. In this sense, ecology refers to the relationships adjustments, and forces at work in the total system of corporations and countries in economic competition.

To remain viable, an ecological system or ecosystem, must continually adjust itself so that balance is maintained. If one area is depleted, the forces of adjustment must work to put the system back in balance. The situation is akin to a game of Monopoly. If all the resources flow in one direction, the game is soon over. To go on playing, a minimum balance is necessary. Of course, the object of international competition is to go on playing.

The concept of ecology stresses the interdependence of the elements within the system. A key requirement is maintaining the balance of the system. In biology, the term *homeostasis* refers to the tendency of a system, such as a cell, to maintain stability——or balance. In cells, homeostasis is an automatic process. In international competition, however, homeostasis is not completely automatic. Because human beings, corporations, and goverements are major elements within the ecosystem, the forces acting to maintain a balance are accelerated, diminished, and distorted by human decisions. The clearer your vision of the ecosystem of global competition, the more your decisions will tend toward mintaining the balance required for long-term success.

Using an ecological model, you can look for relationships, interdependencies, and long-term effects within the competitive arena. Events which have a limited meaning in and of themselves became significantly more revealing when they are seen as part of an ecosystem. Just as aeronautical engineers understand and apply the principles of aerodynamics, you can tailor your decisions in accordance with your understanding of the ecological model.

The purpose of this dissertation is to help you build such a model. The author has chosen Japan and America as illustrations to aid you in acquiring this understanding.

Why Japan and the United States ?

As the U. S. trade deficit climbed to unprecedented heights, panic was widespread in American boardrooms and executive suites. In the often-frenzied attempt to readjust the balance of trade, many false starts have been made. When the U. S. threatened, and sometimes implemented, trade barriers against the Japanese, a similar reaction was seen in Japan, where cost-cutting went beyond the fat into the bone and marrow.

A more enlightened response is needed from both nations. But in order for this to occur, both must have a good grasp of the "big picture." Taking an extensive look at Japanese and U. S. business from an ecological, rather than a purely competitive, perspective is an effective means of understanding that big picture and of learning about the forces that work to maintain, restore——and, at times, distort——the ecological balance. With the overall picture in mind, more effective strategies and methods can be implemented in the corporate and government offices of both countries.

Not only are these two nations great powers in international trade, but also the struggle that both are going through to maintain a viable balance is quite revealing. In recent years, Japan has produced too much and consumed too little. The U. S. has done the reverse——producing too little and consuming too much. The result has been an internatinal trade imbalance that threaten the economic health of one nation, as well as retaliation toward the other.

Japanese management has been the subject of numerous books and articles in recent years. Most of this literature praises the virtues of the Japanese system and gives advice to American managers about how to implement Japanese methods in the U. S. The effect of this extolling of the Japanese situation tends to be a pessimistic outlook on the future of American business. After all, the Japanese do have a cooperative spirit, a strong work ethic, a high rate of savings, a low military budget ——and the list goes on. However, this view overlooks the fact that Japanese companies in the U. S.——as well as some American companies——compare favorably with corporations in Japan in the critical areas of cost, quality, and productivity.

To comprehend what is happening and, thus, be able to work effectively toward restoring balance, an executive or manager must grasp the ecological context of international competition——"larger picture". Familiarity with the ecological framework will increase the effectiveness of anaiysis and decision making; this, in turn, will lead to individual success without creating the kind of disruptions and destortions that could cause long-term disaster.

To glasp a clear idea of "larger picture" managers should learn about the forces that work to restore (at times distort) and maintain the long term balance of economic flows, overall and global. "Larger picture" is not just an abstract philosophy or posture but virtually is a very concrete and macroscopic vector-entity of precision-machine-like.

Now the author would like to invite you to the synopsis of forces that work to maintain (and distort) the macroscopic balance in both global economy and mutually interwoven national economies.

You better have a knowledge of overall capital flow of the world. Due recognition of such as from where to where and how the capital is flowing is a very fundamental mainstay. This flow-matrix of the world's capital should have one clear-cut constraint. It is that the current trade balance of the world as a whole should maintain the equibilium. An export of goods and services of one country is the other country's import, therefore it is crystal clear that the sum total of these two should be zero.

The surplus of current trade balance of one country means the increase of its net asset. This, from the converse view point of opposite foreign country, mean the increase of net debt.

1) Trade surplus, which supplement the other country's fund shortage

Suppose a trade balance of the country concerned has a surplus (in the black), it is a net increase of the nation's credit claim on the other foreign country. This imply that the country concerned has virtually contributed to supplement the foreign country's shortage of funds.

2) Business conditions of one country, which control the other country's conditions

Trade balance play an important role of cushion-valve to modulate relative lags of business fluctuations among countries in world economy.

Let us presume that the Japan has relatively more prosperous business conditions than U. S. then the consumtion and/or investment of Japanese economy is active enough to increase Japanese import of goods and services from U. S. Whereas relatively depressed economy of U. S. would imply a trend to decrease its import from Japan. In consequence Japanese trade balance woud be inclined to the direction of red, and that of U. S. would show a converse trend to be black.

It is a logical conclusion in this case that strong demand in booming Japanese economy spreads to U. S. to bring benefits out of Japan. The other way around, Japan gets suffer to effuse a portion of its boom to U. S.[13)]

Now that with remarkable increase of money transfers and trades in the world today every country on the earth should have so closely tied interdependence of economy. Business condition of one country quickly affect the other countries. What should be emphasized here is a strong necessity of mutual cooperations among countries when they map out their national money and finance policy respectively.

3) **Money market and finance policy, which put significant influence to other country**

Pressures such as the interest-rate cut, say in Japan, to make money flow out to forign countries will induce purchase of dollars in exchange market, thus bringing about the fall of yen's value.

In every national economy, net capital flow out to foreign nation should always be equal to the surplus of its trade balance. Here, for instance, yen's fall would promote Japan's export but discourage Japan's import thus paving the way for the surplus of Japan's trade balance.

Let us now suppose that Japan would take a money-tightenning policy. This would invite the rise of yen. Here the other side of the coin is the fall of dollar, which through both stimulating export and suppressing import, activate U. S. economy. Thus Japan's money-tightening policy implies U. S.'s money-slackening policy. Putting other way, Japan's money-slackening would virtually be blamed by U. S. to be synonymous with that Japan is exporting its recession to the U. S.

4) **Structural features of national economies, which are reflected to money flows among nations**

Somewhat advanced country has a large fund to make research and development but with matured economy and corporations lacks corresponding lucrative investment opportunities. If this country would offer a capital or techology to a promising developping country or a corporation, it can toward the future expect the return money flow inward such as the interest, dividend, or license fee and could accordingly expect its trade balance towards black direction. Conversely, a developping country would depend its economic development upon leverage to raise money overseas or import technology. This would virtually mean its current balance would run into red direction to that extent.

In this course, besides generic innovator-follower influence[14] that comes from respective life cycle stage of a nation's industry or corporation, the red (or black) figure of current account of a nation, reflects the inflow (or outflow) of fund, all according to respective stage of development of the nation.

5) **Larger picture for your decision making**

Now that you would have put in your mind a synopsis of global economy flow which is perfectly a close intertexture of respective national economies, your decision making would be, specifically if further supplemented by a quantitative analysis of aforementioned economic forces or vectors, precisely assisted by precision-machine-like "larger picture".

The Crisis Between Japan and the United States

The balance of trade between the U. S. and Japan has gone dramatically in one direction since the mid-seventies. In the years 1980 to 1987, the United States' deficit with Japan grew from $10 billion to $60 billion.

It is apparent that the trade figures between Japan and the U. S. is representative of the overall trade situation of the two nations. The large total trade surplus of Japan and the large total trade deficit of the U. S. escalate the ecological imbalance. (Japan's negative trade balance for 1980 was an anomaly caused by the oil crisis the provious year.) Notice that the trend was accelerating for both countries until it showed a slight reversal in 1987. It is evident that the imbalance between Japan and the U. S. is not offset by trade elsewhere.

Until 1973, the United States generally ran a trade surplus with the rest of the world. From that year on, the trade balance has been mostly negative——and worsening. It reached a record high of $170 billion in 1986, with slightly over $150 billion of that deficit in manufactured goods. The manufacturing problem runs the gamut from low-technology to high-technology industries. Between 1963 and 1986, U. S. exports of machine tools dropped from 23% of the world's share to 4%. From a monopoly on semiconductors, the U. S. share decreased to 40% in 1986. The Commerce Department estimated that, in 1984, 70% of U. S. firms faced significant competition in domestic markets. That figure was up from 25% just a decade earlier. By 1987, the chairman of the Foreign Trade Council estimated that the percentage of firms facing significant competition domestically had climbed to 80%.

Although the 1987 deficit of $166 billion made the U. S. the world' s largest debtor nation, there was a positive aspect to the figure——it was less than the figure for 1986, even though the second quarter of 1987 revealed the largest deficit in U. S. history. For the year, U. S. exports were up 16%, at the same time that imports slowed slightly. But, even though the overall deficit lessened in 1987, the trade deficit with Japan grew to $60 billion.

Japan's large trade surplus has caused problems not only with the U. S., but also with other nations. These difficulties have been especially pronounced in Europe. In their competitive battle with the Japanese Western Europeans have used quotas, bureaucratic procedures, and lawsuits. Holland's Philips Corporation, for example, has successfully pressured the European Commission to erect trade barriers against Japan in the video tape recorder (VTR) industry.

Indeed, ther are quotas on a variety of Japanese goods in a number of European countries. Siemans of West Germany is involved in a government-backed effort to keep up with the Japanese in massproduced memory chips. France now requires customs documents on VTRs to be translated into French, and exporters must have prior approval before shipping to France. The largest anti-dumping lawsuit in the history of Japanese relations with the European Economic Community has been filed by Philips and West Germany's Grundig.

Japan's concern is that the U. S. will follow the European example because the Japanese trade surplus with America is greater than their surplus with Europe. Thus far, the U. S. reaction has been comparatively mild, but even a slight reaction from their largest trading partner is disconcerting to the Japanese.

An Ecological Correction

An imbalance as large as that between the U. S. and Japan cannot continue without serious ramifications. The crisis in America has motivated numerous strategies in corporate boardrooms, including restructuring and renewed emphasis on people and quality. The most visible corrective factor, however, was the drop in the value of the dollar.

The drop in the dollar's value was actually overdue. Between 1975 and 1980, Japan overtook the U. S. in output per hour; since 1980, Japan has increased its margin every year. The U. S. is still slightly ahead in productivity (which includes total hours worked and value of goods produced, as well as output per hour), but American productivity has been growing at a slower pace, due primarily to Japan's increased output per hour.

The Japanese advantage in productivity growth was not reflected in the exchange rate until 1985. Then, the dollar moved down sharply. The impact on the balance of trade was not immediate. Such delay is normal because, although the price of exports decreases and the cost of imports increases when the dollar declines in value, for a while, price changes offset the gains made in export volume (J-curve effect).

The lower value of the dollar did not take long to be reflected in the unit labor cost statistics. Japan had a consistent advantage of about 50% in labor cost throughout the 1960s and early 1970s. That margin shrank in the mid-seventies and started growing again, surpassing previous margins. Then, in a dramatic turnaround in 1986, the U. S. had slightly lower unit labor costs than Japan.

It is clear that the decreasing value of the dollar made a real difference in American competitiveness. Although the output per hour continued to favor Japan, unit labor costs became about even.

There is no question that the dollar's decline in recent years is a major factor in renewing America's competitiveness. By the end of 1987, the dollar was back where it had been when the U. S. ran healthy trade surpluses. The dollar had fallen to about the level it had in 1980, when its value against that of other currencies began to climb sharply. The decline in the value of the dollar had the effect of a discount for American exporters, rolling prices back to the levels of five or six years before. As a result, the price advantage of Japanese products almost disappeared, and manufacturing costs in the two nations became about equal.

From 1980 to 1985, the dollar rose a dramatic 73% against the currencies of the United States' ten major trading partners. Then, during the ensuing decline, the dollar returned in relative terms to where it had been at the start of its rapid rise. From February 1985 to December 1987, the dollar declined 40%. The effect of this decline can be seen in examining the current account balance. The U. S. current account balance (which includes net investment income, as well as the balance on trade in goods and services) was forecast to improve slightly in 1988, after six years of worsening declines. At the same tims, the Japanese current account balance was expected to show a slight decline.

Although the situation improved considerably for the U. S., and indirectly for other nations that depend upon the U. S. as market for their exports, the bottom of the decline in the U. S. dollar may not have been reached. Many U. S. economists believe the dollar should decline another 10-15% or more. The future course of the dollar's value is uncertain. Since the U. S. has become a major debtor nation, pressures from outside sources, such as the International Monetary Fund (IMF) must be taken into account. This much is certain —— in order to reduce indebtedness, the U. S. will have to improve its balance of trade, and a lower dollar helps.

Foreign competitors, particularly the Japanese, have blunted the effects of the lower dollar by raising prices by proportionally much less than the rise in their currencies. Foreign companies have been able to preserve some of their profit margins by cutting production costs, setting up plants in the U. S., and selling dollars short in the futures market. The latter move is a byproduct of the net purchases of dollars by foreigners in 1986-87, especially Britain, Japan and West Germany, in an effort to slow the dollar's slide.

It took four to five years to build the U. S. trade deficit, and it may well take that long to get it back down. The improvemnt is dependent upon cutting imports. Reducing U. S. domestic demand is a high priority, not only to help reduce imports, but also to free up goods for export. A move from consumption to savings will, indeed, be important, as will increased productivity on the part of American workers.

It appears that personal consumption in the U. S. may have peaked, at least for the time being. From 1982 through 1987, the U. S. had a growing gap between output and spending. The percentage of change in real private consumption has dropped since 1984, and approached one percent in 1987, down from a peak of almost five percent. This drop in the increase in consumer spending helps to close the gap.

The Causes and Effects of the Dollar's Decline

There were a number of reasons for the dollar's decline. When a nation's productivity growth lags behind that of its trading partners, its currency will drop. Depreciating currency is the market's way of restoring balance. From an ecological point of view, this is a healthy development. Although U. S. productivity has been the world's highest, its growth has lagged behind that of West Gormany and Japan for decades. Inflation also has an effect on currency value, and inflation in the U. S. was consistently higher than that of Japan and West Germany during the decade of the seventies. In addition, for most of the period since 1982, U. S. money growth has outpaced that of other countries.

Other factors related to the dollar's decline are the world banks, the various international monetary agreements (such as the Louvre Accord), and the Federal Reserve's money policies. All of these attempt to smooth the swings when imbalances occur. But they can also distort the situation——as happened when the dollar was being artificially propped up in the period before the "Black Monday" stock market crash of October 19, 1987. The dollar fell dramatically after the crash, making up for lost time.

The effects of the dollar's decline are manifold. The most widely felt effect is that U. S. goods, securities, and real estate become less costly for foreigners, and Americans must pay more for anything imported. Living standards in the U. S. probably will suffer, but, according to some, may not actually decline. The fallen dollar also speeds inflation, by making exports more expensive——thus, permitting U. S. firms to raise prices.

On the positive side, of course, the lower dollar helps the competitive position of American firms. Compensation in U. S. manufacturing, for example, has averaged \$13.40 per hour ; with the decline of the dollar, Japanese compensation equalled \$12.25 and West German compensation amounted to \$18.00. When these averages are adjusted to reflect higher U. S. productivity, the hourly rates become \$15 in Japan and \$24 in West Germany. In the long run, differentials such as these should help ease the U. S. trade deficit.

The lower dollar also puts pressure on major trading partners of the United States. Japan has felt the pressure more than others, since the dollar has fallen most against the yen. Japanese firms have made difficult adjustments, but the results of these are sometimes costly. Both the amount of Japan's exports, if denominated in yen, and the profits of manufacturing companies dropped significantly from 1985 to 1986.

The Current Situation

Author's continued works scheduled to explore in depth the current situation in Japan and America, looking at the problems and the responses of both nations from an ecological perspective. Americans must remember that since Japan consists of a very resource-limited group of islands, it must import food and other basic commodities in order to sustain its people. Ignoring this basic fact will lead to serious problems.

American and Japanese business leaders must learn to think in ecological terms about international trade. They must take care to avoid becoming myopic——looking at trade between the two countries apart from third parties. By taking the larger view into account, U. S. and Japanese industry can relieve some of the pressures of head-to-head competition.

A major goal for Americans is to balance consumption and production. As national boundaries of competition have fallen, the American appetite for consumption has increased much faster than the United States' ability to produce. Since imports will continue to arrive, part of the answer for America lies in increasing production by doing more exporting. Growth in productivity must support this. Restraint in consumption must be accompanied by a rise in the level of savings——so that increased domestic savings can replace foreign investment as the capital needs of American industry grow.

As more people on both sides of the Pacific understand the larger picture——the ecological perspective, both Japan and America will be able to be more rational in their actions and reactions toward one another. It is as though the two countries were at opposite ends of the same ship. Trying to sink the other end would have unintended——and disastrous——consequences.

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